HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK

Saint John, Moncton CMAs and Fredericton CA

CANADA MORTGAGE AND HOUSING CORPORATION

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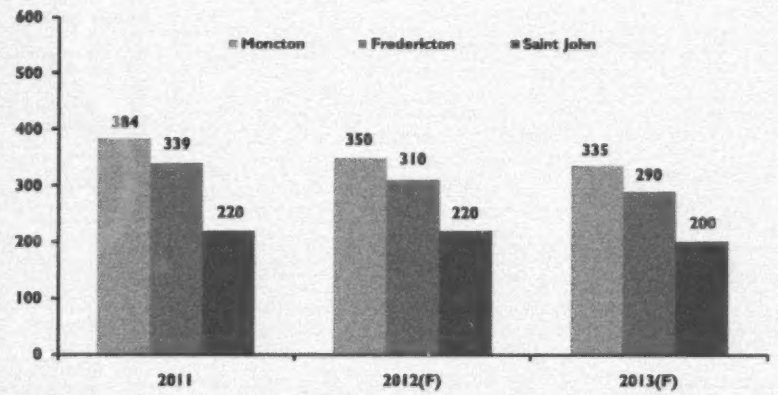
Job Market Continues to Impact Housing Demand

Economic growth in New Brunswick, which has relied heavily on public sector investment in recent years, is expected to remain weak in 2012. Reduced government spending combined with a weak outlook for large-scale, private sector capital investment will be key contributing factors. Fiscal restraint was one of the main themes of the 2012-13 provincial budget. A combination of program reductions and increased revenues aimed at eliminating the annual deficits by 2014-2015 will result in reduced public sector expenditures over the forecast period.

Growth in New Brunswick's natural resource sector has been limited by a

Figure 1

Single Starts - Moncton, Fredericton and Saint John



Source: CMHC

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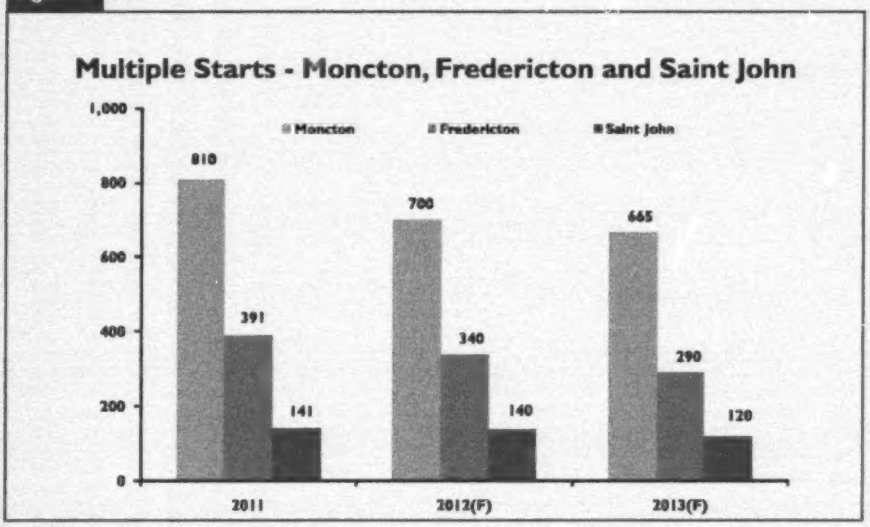
Figure 2



Source: CMHC

lingering downturn in the demand for commodities. Historically low lumber prices and reduced demand for value-added forestry products, particularly exports to the United States, continue to have a negative impact on the provincial forestry sector. As a result, the provincial government has emphasized other natural resources, such as potash and shale gas. Current plans to review existing royalty agreements are likely to benefit provincial coffers. The labour force, however, is not likely to benefit from significant job creation in either of these industries in the near term.

Additional job creation is also unlikely to emerge from the provincial energy sector, which has served as a dominant economic driver in New Brunswick during the past decade, particularly in the Saint John area. With no near-term plans for significant expansion, the energy sector will have minimal impact in generating new economic growth in the province over the forecast period.

In addition, the current weakness in demand for natural resources, and the strength of the Canadian dollar will continue to negatively impact export activity in a variety of sectors extending beyond natural resources, such as the manufacturing, trade and transportation sectors. These challenges have been felt in the provincial job market. After reaching its peak in 2009, total employment in New Brunswick has posted two consecutive annual declines, with relatively stable part-time employment numbers offset by fewer full-time jobs.

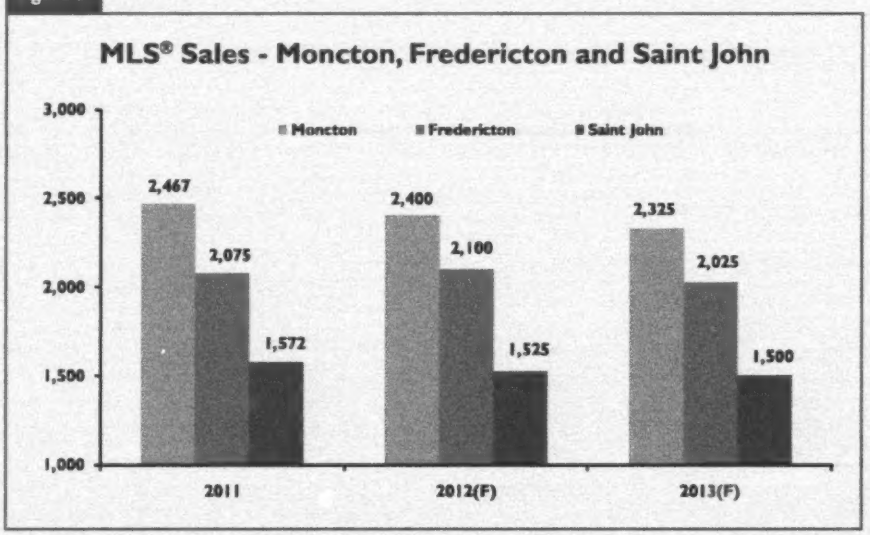
In Fredericton, the provincial capital, the impact of increased public sector fiscal restraint could be more pronounced, owing to its large public sector workforce. In both Moncton and Saint John, recent declines in overall employment have been marked by fewer full-time jobs in the service, trade, and transportation sectors. This trend is expected to continue in 2012.

Provincially, employment levels are expected to decline in both 2012 and 2013. The subsequent impact of reduced employment levels will be felt in the housing market over the forecast period. Provincial housing starts are projected to decline from 3,452 in 2011 to 2,950 units in 2012 followed by a further decline to 2,800 units in 2013.

Mortgage Rates

CMHC uses publically available information and the consensus among

Figure 3



Source: Canadian Real Estate Association (CREA), CMHC Forecast
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major Canadian forecasters as a basis for its interest rate forecast. Although there is significant uncertainty, consensus forecasts suggest that interest rates are not expected to rise until at least later in 2012, but will remain low by historical standards, thus supporting the Canadian housing market.

According to CMHC's base case scenario, posted mortgage rates will increase near the end of 2012. For 2012, the one-year posted mortgage rate is expected to be in the 3.1 to 3.6 per cent range, while the five-year posted mortgage rate is forecast to be within 5.0 to 5.4 per cent. For 2013, the one-year posted mortgage rate is expected to rise with interest rates and be in the 3.5 to 4.1 per cent range, while the five-year posted mortgage rate is forecast to be within 5.1 to 5.6 per cent.

Residential Construction to Decline

Residential construction activity in Greater Moncton, the province's largest housing market, is expected to decline in 2012 and 2013. During each of the past two years, total housing starts in the Moncton CMA have been strong, due in part, to the significant expansion of the local rental market. With an historically high level of apartment units under construction at the end of 2011, the pace of development is expected to slow throughout 2012 as the absorption time required for new units continues to increase.

Semi-detached starts are expected to decline in Greater Moncton in both 2012 and 2013. Looking back a decade to 2002, semi-detached starts accounted for approximately seven per cent of total starts in the Moncton CMA. Their share of total starts peaked at 36 per cent in 2009, which pushed the monthly average number of new, unabsorbed units above 70 units. As starts have declined in recent years, the excess supply of new semi-detached units has gradually dissipated. During the second half of 2011, the monthly average number of new, unabsorbed units was less than 15 units. While semi-detached homes are expected to remain popular in the Greater Moncton market, an overall decline in demand for new homes will lead to fewer starts and allow supply and demand to reach and maintain a sustainable balance. Expect multiple starts to decline to 700 units in 2012. A further reduction to 665 starts is projected for 2013.

Single-detached starts have been trending down in Greater Moncton since 2003, as residential housing starts in the CMA have gradually shifted towards increased multi-residential construction. In 2000, approximately two thirds of total housing starts were single-detached units. By 2011, their share had declined to roughly one third. The widening gap between the cost of a new home and the average price of existing homes on the resale market has, in part, provided additional options to potential homeowners, luring many to the resale market. Look for single starts to decline to 350 units in 2012, followed by a modest decline to 335 units in 2013.

In Saint John, new home construction activity declined significantly in 2011, following a five year period when housing starts were well above the long-term average annual level. In the first half of the most recent decade, the new home market in Saint John was buoyed by construction activity linked to the expansion of the local energy sector and subsequent speculation regarding the potential for new, large-scale projects. Housing starts peaked in 2008 and have subsequently trended lower as economic conditions muted the expansion of the local energy sector and reduced the level of in-migration relative to the province's other two large urban areas. These factors resulted in a rising vacancy rate, and reduced construction activity in the local rental market. As a result, expect a decline in total multiple starts over the forecast period. Single starts, which posted the lowest total in over a decade in 2011, are expected to remain relatively unchanged with 220 units in 2012, followed by a moderate decline in 2013 to 200 units.

Residential construction activity in Fredericton got off to a slow start during the first quarter of 2012, particularly in terms of single-detached starts. Last year, total housing starts in New Brunswick's Capital Region were bolstered by the highest number of multiple starts recorded during the past three decades. Nearly 60 per cent of last year's 391 multiple starts were rental units. Despite higher than average levels of construction activity in the local rental market, the vacancy rate recorded in Fredericton last fall was the lowest in the province at 2.6 per cent. It was also essentially unchanged from the 2.5 per cent recorded one year earlier even though apartment starts in the region were significantly higher than the 10-year average. The pace of development in this market segment, however, is expected to decelerate in 2012 with fewer apartment starts anticipated with the potential for dampened in-migration to the provincial capital region. Single starts are expected to remain relatively stable over the forecast period, with starts expected to reach 310 and 290 units in 2012 and 2013, respectively.

Fewer MLS® Sales Expected in Large Urban Centres

During the first three months of 2012, Greater Moncton posted the highest volume of MLS® sales in the province. MLS® sales to the end of the first quarter, however, were down approximately two per cent Compared to last year. For 2012, overall MLS® sales activity in Greater Moncton is expected to follow a similar trend. Looking forward, a decline in MLS® sales ranging between two and four per cent is anticipated in 2012 as a weaker job market impacts the demand for existing homes. The lack of significant growth in MLS® sales, combined with ample listings will limit price growth to less than three per cent over the forecast period. For 2012 and 2013, expect the average MLS® sale price to reach $160,500 and $164,000, respectively.

Since the start of the year, demand for existing homes has rebounded in Saint John, resulting in a six per cent, year-over-year increase in first quarter MLS® sales. Even though resale market data was positive during the first three months of the year, the recent trend of declining MLS® sales is expected to continue in 2012. After posting 1,572 MLS® sales last year, the number of units sold is expected to decline to 1,525 units in 2012, with a subsequent decline to approximately 1,500 units in 2013. Declining MLS® sales in Saint John muted price growth in both 2010 and 2011. After the first three months of 2012, the average MLS® sale price was down approximately two per cent from the previous year's first quarter total. With reduced sales expected in 2012, it is anticipated that the average MLS® sale price for the year will decline, likely by less than two per cent.

In Fredericton, the number of MLS® sales recorded during the first three months of this year trailed last year's pace for the same period. Although the first quarter does not provide accurate insight in terms of the year long trend in activity, softening demand for existing homes, particularly in the higher price ranges, is expected to lead MLS® sales to 2,100 units in 2012, followed by a moderate decline to 2,025 in 2013. Along with fewer sales, price growth, which has been declining during each of the past three years, will be modest over the forecast period. The average MLS® sale price is expected to reach $175,500 and $179,500 in 2012 and 2013, respectively.

Vacancy Rates to Rise in Some Provincial Centres

Apartment starts in Greater Moncton were strong in 2011. In view of the significant expansion of the local rental universe resulting from last year's construction season, there will be significant upward pressure on the local vacancy rate over the forecast period. As a result, expect the local vacancy rate to rise from last fall's rate of 4.3 per cent and range between 4.8 and 5.2 per cent in 2012.

The vacancy rate in Saint John, which has been the highest among New Brunswick's three large urban centres in recent years, is expected to remain relatively high in the fall of 2012, ranging between 5.2 and 5.8 per cent. The lack of significant population growth, however, is likely to keep the vacancy rate closer to the upper end of this range. Limited construction activity in the rental market last year, and again this year, will result in a modest expansion of the local rental universe, subsequently leading to a stable or slightly lower vacancy rate in 2013.

In Fredericton, strong construction activity has resulted in steady expansion of the local rental universe in recent years. Despite the fact that Fredericton had the lowest vacancy rate in the province last year, the increase in supply from the significant gains in apartment construction activity during the second half of 2011 is likely to exert upward pressure on the local vacancy rate. Expect the local vacancy rate to be between 2.8 and 3.4 per cent in 2012. A further moderate increase is anticipated in 2013.

In each of New Brunswick's three major urban areas, expect the increase in the average rent for a two-bedroom unit to range between two and three per cent in both 2012 and 2013.

Forecast Summary Saint John CMA Spring 2012	2009	2010	2011	2012f	% chg	2013f	% chg
Resale Market							
MLS® Sales	1,986	1,751	1,572	1,525	-3.0	1,500	-1.6
MLS® New Listings	4,289	3,888	3,986	4,100	2.9	3,750	-8.5
MLS® Average Price ($)	171,027	171,104	170,354	170,000	-0.2	172,500	1.5
New Home Market							
Starts:							
Single-Detached	369	345	220	220	0.0	200	-9.1
Multiples	290	308	141	140	-0.7	120	-14.3
Starts - Total	659	653	361	360	-0.3	320	-11.1
Average Price ($):							
Single-Detached	282,652	277,325	315,414	275,000	-12.8	290,000	5.5
Median Price ($):							
Single-Detached	251,000	265,000	275,000	250,000	-9.1	257,500	3.0
New Housing Price Index (% chg) (Saint John-Moncton-Fredericton)	3.3	1.5	0.6	1.5	-	1.5	-
Rental Market							
October Vacancy Rate (%)	3.6	5.1	5.9	5.4	-0.5	5.0	-0.4
Two-bedroom Average Rent (October) ($)	644	645	670	680	-	695	-
Economic Overview							
Mortgage Rate (1 year) (%)	4.02	3.49	3.52	3.37	-	3.78	-
Mortgage Rate (5 year) (%)	5.63	5.61	5.37	5.26	-	5.37	-
Annual Employment Level	66,100	64,000	64,700	62,500	-3.4	62,000	-0.8
Employment Growth (%)	3.8	-3.2	1.1	-3.4	-	-0.8	-
Unemployment rate (%)	5.8	7.6	6.5	6.0	-	5.8	-
Net Migration (N.B.)	2,040	2,646	953	2,000	109.9	2,075	3.8

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

Forecast Summary Moncton CMA Spring 2012	2009	2010	2011	2012f	% chg	2013f	% chg
Resale Market							
MLS® Sales	2,386	2,402	2,467	2,400	-2.7	2,325	-3.1
MLS® New Listings	4,195	4,127	4,388	4,200	-4.3	4,000	-4.8
MLS® Average Price ($)	150,135	152,251	158,561	160,500	1.2	164,000	2.2
New Home Market							
Starts:							
Single-Detached	430	462	384	350	-8.9	335	-4.3
Multiples	543	938	810	700	-13.6	665	-5.0
Starts - Total	973	1,400	1,194	1,050	-12.1	1,000	-4.8
Average Price ($):							
Single-Detached	226,921	257,320	276,730	262,500	-5.1	268,000	2.1
Median Price ($):							
Single-Detached	209,900	239,000	249,900	242,000	-3.2	246,000	1.7
New Housing Price Index (% chg) (Saint John-Moncton-Fredericton)	3.3	1.5	0.6	1.5	-	1.5	-
Rental Market							
October Vacancy Rate (%)	3.8	4.2	4.3	4.8	0.5	5.0	0.2
Two-bedroom Average Rent (October) ($)	675	691	715	730	-	745	-
Economic Overview							
Mortgage Rate (1 year) (%)	4.02	3.49	3.52	3.37	-	3.78	-
Mortgage Rate (5 year) (%)	5.63	5.61	5.37	5.26	-	5.37	-
Annual Employment Level	72,700	70,900	71,400	70,500	-1.3	71,500	1.4
Employment Growth (%)	0.1	-2.5	0.7	-1.3	-	1.4	-
Unemployment rate (%)	6.2	7.0	7.5	6.2	-	6.0	-
Net Migration (N.B.)	2,040	2,646	953	2,000	109.9	2,075	3.8

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NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

Forecast Summary Fredericton CA Spring 2012							
	2009	2010	2011	2012f	% chg	2013f	% chg
Resale Market							
MLS® Sales	2,166	2,086	2,075	2,100	1.2	2,025	-3.6
MLS® New Listings	4,406	4,461	4,647	4,400	-5.3	4,250	-3.4
MLS® Average Price ($)	159,219	165,175	170,563	175,500	2.9	179,500	2.3
New Home Market							
Starts:							
Single-Detached	403	370	339	310	-8.6	290	-6.5
Multiples	352	324	391	340	-13.0	290	-14.7
Starts - Total	755	694	730	650	-11.0	580	-10.8
Average Price ($):							
Single-Detached	245,269	245,486	258,868	250,000	-3.4	265,000	6.0
Median Price ($):							
Single-Detached	239,000	239,000	250,000	239,000	-4.4	245,000	2.5
New Housing Price Index (% chg) (Saint John-Moncton-Fredericton)	3.3	1.5	0.6	1.5	-	1.5	-
Rental Market							
October Vacancy Rate (%)	2.3	2.6	2.5	3.0	0.5	3.5	0.5
Two-bedroom Average Rent (October) ($)	719	734	745	760	-	775	-
Economic Overview							
Mortgage Rate (1 year) (%)	4.02	3.49	3.52	3.37	-	3.78	-
Mortgage Rate (5 year) (%)	5.63	5.61	5.37	5.26	-	5.37	-
Annual Employment Level	52,625	53,275	50,750	52,000	2.5	51,500	-1.0
Employment Growth (%)	0.0	1.2	-4.7	2.5	-	-1.0	-
Unemployment rate (%)	5.5	5.5	6.5	6.1	-	6.0	-
Net Migration (N.B.)	2,040	2,646	953	2,000	109.9	2,075	3.8

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NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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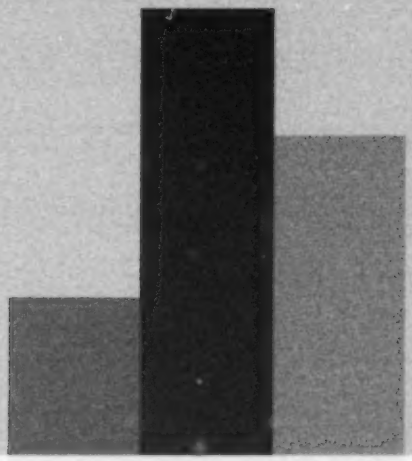

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